The Social Responsibility of Management

The Edward L. Bernays Foundation Lectures of 1950

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Foreword

EDWARD L. BERNAYS

The four lectures on "The Social Responsibility of Management" which appear in this book were delivered in April and May 1950 at New York University in connection with the Golden Anniversary of its School of Commerce, Accounts, and Finance. They were sponsored by the Edward L. Bernays Foundation.

The Foundation was established in 1946 "to stimulate, promote, encourage and advance scientific, educational, literary and/or charitable causes including, without limitation, the study of the science of public relations and public relations counselling to further human relations, intercultural and intergroup relations and to advance a sound public interest therein." Another purpose of the Foundation is "to study and conduct research into all phases of and conditions affecting human, cultural and group relations, and the changes and improvements in the conditions of life and work among people."

The larger foundations in this country sponsor extensive research in education, health, and other fields, and in that way bring about improved public relationships and better human relations. But a foundation whose funds are limited finds it difficult to decide in what fields it can help effectively. There is so much to be done in bridging

the gaps of misunderstanding among the many diversified groups that make up our complex society.

In seeking to sponsor some activity in a field in which the misunderstandings are of major economic and human significance, our Foundation decided upon the field of management relationships. It was felt that one way of bringing the best thought in this field to a point of high visibility would be to underwrite a series of lectures on the social responsibility of management to be delivered at one of America's leading universities situated in a key industrial center.

The lectures would then be published in book form. This, and the reviews and comments which usually follow the publication of such volumes, would make the thinking of top experts in the field available to thousands of Americans.

What the Foundation had in mind was a series of lectures whose purpose would be not to present one viewpoint or intensify present attitudes but rather to create a forum for calling to public attention, and particularly to the attention of the business community, various viewpoints which must be taken into consideration for a realistic understanding and appraisal of the social responsibility of management.

It was believed that this purpose could best be served by presenting the diverse viewpoints of a social engineer, a trade-union leader, a management executive, and an economist to discuss recent advances in the field.

New York University presented this lecture series most effectively, and the lectures themselves aroused a great deal of interest, as evidenced by the fact that the University's large auditorium was crowded at each session.

I hope that this book, in bringing the four lectures to a wider audience, will accomplish at least three things: intensify existing favorable attitudes toward a modern understanding of management, convert men and women in many fields of activity to the new viewpoints presented here, and negate the social myopia of those who cannot see the realities of present-day needs in our democratic society, now faced with the critical necessity of moving forward while defending itself against an enemy.

Preface

G. ROWLAND COLLINS, DEAN
School of Commerce, Accounts, and Finance
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Many, many years ago, with that inimitable flair for nicety of expression which is the gift of his race, a brilliant French philosopher wrote down this unique and terse observation: "No generalization is entirely true—not even this one."

Here, indeed, may be a significant and acute idea.

Certain it is that for a long time now it has been fashionable among certain segments of our so-called intelligentsia to castigate business management, to decry its failure to recognize and to embrace its "social responsibilities." In sweeping generalizations, the cynics have been prone to hold that business management has contributed little or nothing to the process of focus and refinement involved in significant social integration. With the fervor of the professional crusader tilting at a devil technique, they have insisted that business management contributes to our social order little but crass materialism and the cultivation and enrichment of the many and varied debasements incident to its pursuit.

Now, of course, there is in the sweep of generalization often a tiny shred of truth. The accepted concept of the twenties, after all, was pretty much the concept of managerial "survival": the devil take the hindmost. We exalted

the barehanded ability to climb the managerial ladder. We even respected a dictatorial top business management that ran its affairs "in an imperious, headlong type of operation that annually left the stockholders paid in full, the directors admiringly bemused, and the surviving associates on the executive staff in a cold sweat."

All too frequently that kind of top business management flagrantly dissipated the human resources of the company concerned. More often than not it failed completely to build a harmonious, self-protecting executive staff that could give the particular company a sense of continuity and inward grace. And generally too it utterly ignored the interests of the community in which it operated and the corrosive stagnation of its contribution to the social organism of the state and nation.

To a considerable extent at least, over the years and since the twenties we have said good-by to most of that. But there still remains a long way to go if business management is not to be tragically amiss in meeting its social responsibilities.

And so it is that the School of Commerce, Accounts, and Finance of New York University, founded in 1900 and dedicated to the twin objectives of teaching efficiency and social idealism in business management, at its half-century jubilee, still true to the terms of its genesis, is delighted to sponsor a series of outstanding discussions of the general topic of "The Social Responsibility of Management."

It was a happy thought and a generous gesture that made the Bernays Lecture Series a part of our Golden Anniversary celebration.

Perhaps it is only a coincidence that Mr. Edward L.

Bernays gave the first university course in public relations at the School of Commerce, Accounts, and Finance of New York University in 1923. A quarter of a century later he returned to our faculty as Adjunct Professor of Public Relations.

Quite apart from his personal, though limited, association with the School of Commerce, Mr. Bernays has been a potent force in the development of public relations in this country and abroad. How much the concept of public relations has changed from frivolous press-agentry to a social science affecting our national well being is no more clearly illustrated than in this symposium.

As chairman of the lecture series at which these papers were read, it was my pleasure to introduce the Messrs. Chase, Ruttenberg, and Given. Dr. Nourse was presented by my good friend and colleague, Dr. Jules I. Bogen.

Stuart Chase is well known as an economist, author, and lecturer. Educated at the Massachusetts Institute of Technology and Harvard University, he has held important positions in government and written prolifically on varied subjects. His publications have added clarity and comprehension to many fields of thought. Among his major works are *Men and Machines, Government in Business, The Tyranny of Words,* and *The Proper Study of Mankind.*

Stanley H. Ruttenberg is director of the Department of Education and Research, Congress of Industrial Organizations. He was graduated from the University of Pittsburgh in 1937 and has since been continuously associated with the C.I.O., except for three years in the United States Army and one year as director of Hull House, Chicago. Active in many organizations, he is special

adviser to the American delegation of the Fourth International Conference of UNESCO.

Edwin G. Nourse was formerly chairman of the Council of Economic Advisers to the President. After graduating from Cornell University and the University of Chicago, Dr. Nourse advanced through many responsible positions in government and economic circles. From 1942 to 1946 he was vice-president of the Brookings Institution. Among his chief publications are *Agriculture Economics* and *Price Making in a Democracy.*

William B. Given, Jr., is chairman of the board of the American Brake Shoe Company. As a young man he studied at the Massachusetts Institute of Technology and the Sheffield Scientific School of Yale. In 1911 he became associated with the American Brake Shoe Company and eventually rose through the ranks to the presidency in 1929 and to the chairmanship of the board in 1950. He was one of the company of distinguished builders of enterprise to receive from our own University the honorary degree of Doctor of Commercial Science on the occasion of our Golden Anniversary Convocation.

In this symposium all four distinguished lecturers have contributed comment that is notably worthy of study and appraisal. Naturally, neither the school nor the University necessarily endorses the ideas expressed in this lecture series, but they are glad to expose to public view in the printed word the individual thinking of the four participants.

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From the Point of View of the Social Engineer

STUART CHASE

Tacked on the door of my study in Connecticut is a cartoon that David Lilienthal sent me long ago when he was with the T.V.A. A very sour-looking gentleman is seated most uncomfortably inside what seems to be a cake of ice. The drawing is labeled: "People are no damned good!"

Mr. Lilienthal said that it helped him to keep going over the rough places, and I find a glance at it does the same for me. The old curmudgeon who is making himself so miserable would be surprised to find how much warmer and more comfortable it would be to trust people a little.

The encouraging part is that social science can now prove him wrong. The cumulative findings to date go far to vindicate the lesson of this cartoon. People are all right, but some of us have crabbed and distorted ideas about them. We see through a cake of ice, darkly. What we see may be not in the space-time world at all but in our minds—images created by past conditioning.

Abraham Lincoln once put it this way: "Why should there not be a patient confidence in the ultimate justice

of the people? Is there any better or equal hope in the world?" He sensed intuitively what scientists later have been able to demonstrate.

Not long after Lincoln made this statement, Lewis H. Morgan began to lay the foundation for the science of cultural anthropology (which deals with group behavior, not with measuring skulls) by studying the family system of Seneca Indians in upstate New York.

I want to talk about some of the contributions that have been or are being added by this new science to the old one of business management. I think that what I have to say falls into four groups:

First, two central concepts social scientists have introduced;

Second, some common ideas about people that have been shown to be incorrect;

Third, items from work in progress that promise some useful results to management;

Fourth, the problem of the relation of executive and scientist.

I

Following Morgan's modest beginnings, other brilliant men, Sumner, Boas, Malinowski, and a galaxy of famous names, developed the "culture concept," the central finding in the whole field of the social sciences. The Social Science Research Council, which is a kind of clearinghouse of the seven learned societies, sent out a questionnaire to representative social scientists throughout the country and asked them, among other questions, what they considered the outstanding accomplishments of social science. And not only anthropologists but psychologists,

sociologists, economists, political scientists, and historians came back with the culture concept as the greatest accomplishment.

The assumption that "people are no damned good" cannot be fitted into the culture concept. A culture comprehends all the people in a given society. It is a set of patterns in which every individual grows and matures. It is the basic datum for the study of man.

The second concept is something that I will discuss again later in connection with the Hawthorne experiment. It concerns what happens whenever a group of people is together long enough to generate a common, if unwritten, set of rules and ways of conduct.

Studies are clustering around this and allied phenomena under the somewhat formidable title of "group dynamics," which you are going to hear more and more about. No manager can afford to neglect them. They are beginning to show not only the negative power of groups but the enormous reservoirs of positive action which can be released when conditions are, as the experts say, "correctly structured."

Man is a social animal, as well as a working one, but we are still learning how much he can sometimes surpass himself under the stimulation of his fellows. One way to think of it is the energy released in a fire panic, but in reverse—plus, instead of minus. Let us look at a concrete example:

In the January issue of *Fortune* of this year, Russell Davenport tells the story of one of Joe Scanlon's demonstrations in union-management participation to increase production in a Massachusetts machine-tool plant employing about five hundred men.

As many of you doubtless know, Mr. Scanlon used to be an official of the Steel Workers' Union and is now a full professor at Massachusetts Institute of Technology. He is perhaps the most dynamic social engineer in the field of labor relations today and thus eminently fitted to work with the concept of group dynamics. He knows very well how to set up joint committees which can take output right through the roof by releasing energy and intelligence in the rank and file which hitherto had been bottled up. He can release it in management, too.

The plan that Russell Davenport describes in *Fortune* is only one of about forty that Scanlon has set up. He told me about his first plan when I was in Cambridge the other day.

There was a steel mill near Pittsburgh heavily in the red, with about two thousand employees, at the bottom of a depression. Scanlon was a cost accountant as well as a social engineer, and he knew, through his accounting experience, that the mill was about done for. At the same time he became interested in the new Steel Workers' Union, resigned his place as cost accountant, went into manual work, and became the president of the union local.

He examined the books and found that the trouble was just as bad as the management said it was. He then called a meeting of the union, locked the doors, and kept the men there practically all night until he had hammered into their heads that the company was going broke, that they would lose their jobs, and that they had to take a 25 per cent wage cut for six months if they wanted to keep going.

Well, they demurred. They said, "How about those

Cadillacs, how about those big limousines?," and Joe laid it on the line, as a cost accountant. Finally they agreed, the company was saved, and it is still operating efficiently.

II

Suppose we look now at a few findings of social scientists that are contrary to current assumptions and thus relatively newsworthy. Nothing so startling, of course, as "Man bites dog"; more on the order of "Man doesn't have to bite Man."

"People are no damned good" is one of these assumptions, and it is a more common belief in our democracy than one likes to think. The culture concept, based on observations in many different societies, refutes it, as we have seen. A more widely held doctrine is that most people are inherently lazy. They will not work unless they have to. They never would work dependably unless bribed or intimidated into it. The social scientists, the physiologists, the biologists cannot find any solid evidence for this assumption. Man, the scientists tell us, is a working animal. Unless he keeps his mind and his muscles active, he tends to degenerate rapidly. But people naturally prefer certain types of activity to others. Nobody seems to like coal mining very well, while preferences vary, of course, between individuals. Some cannot take an assembly line. Others can; they indulge in pleasant daydreams while fitting on the left front fender and never need to consult the company psychiatrist.

I was recently invited to analyze the pension system of one of our great industrial companies. I found that a very serious problem is developing there due to the human desire to work and be active. The plan of this

company provides compulsory retirement at the age of 65. Many of the pensioners, though free of financial worry for the rest of their lives, do not know what to do with their freedom. Some of them are cracking up mentally.

Said a man of sixty in this company:

> It's really tragic, you know. So many of the fellows don't want to think about the future. They'll have to go sometime, and they'll miss their jobs and the companionship of the men they've worked with so long. . . . For 20, 30, 40 years they've followed a routine, getting up at a certain time, going to work, coming home, relaxing, reading the paper. All of a sudden, it stops. They get up in the morning and they have nowhere to go; nothing to do.

To meet this problem, the company now gives passes to pensioners so that they can go back to the old shop and watch others doing what they are no longer permitted to do. It is also hiring social scientists as "old-age counselors" to start helping people five years before retirement to develop new interests and new hobbies preliminary to the ordeal of idleness.

And, of course, all this ties in with a problem we have known for a long time. I had a chapter about it in my *Men and Machines,* published twenty years ago—the problem of leisure time. As working hours dropped from sixty, to fifty, to forty and are now headed toward thirty a week, this leisure-time problem has become really important.

Dr. Alexander Leighton, about whom we will have quite a lot to say later, notes that much thinking at policy-making levels follows the line that man is innately lazy and prone to do nothing unless prodded by the threat of

punishment, or lured by rewards, a little like the donkey with the carrot in front of his nose.

"Yet," says Leighton, "the weight of evidence, from careful study, is on the side of assuming that work is one of the enjoyed and rewarding human activities, and that most people, under normal conditions, actively seek it."

If people won't work—and sometimes they will not—it probably indicates that the conditions of work are abnormal. There is something wrong with the job, not with the man. Management, instead of cussing the help, would do better to concentrate on finding out what the abnormal conditions are and remedying them.

We had a very interesting seminar on this whole question of what makes workers work last summer at the Y.M.C.A. Conference on Management Problems. Allied to the assumption that people are lazy is the well-worn doctrine of "economic man." This concept colors not only classical economics but a good deal of managerial thinking as well. It is the assumption that "money makes the mare go," that economic gain is the only incentive that makes people work and gets things done. It follows that the more money you can offer, the harder people will strive and, per contra, if no gain is offered, the whole economy is likely to collapse.

The late Dr. Elton Mayo of the Harvard School of Business Administration was one of the first to use controlled experiments in testing this assumption. They were carried out in the Hawthorne plant of the Western Electric Company some twenty years ago and have become social-science classics, especially the story of the girls assembling telephone relays, a little gadget that looks like a pocket whistle.

I do not need to repeat anything but the conclusions as you all know the story. It was found that the incentive which, above all others, affected the girls' production rate was the sense of being recognized, of being consulted, of feeling important. Remember that after almost two years of experimentation with various types of wage rates, hours, rest pauses, and working conditions, they went back to the base period of forty-eight hours, no Saturdays off, no rest pauses, no hot lunch at the company expense, no piece-work incentive, nothing. They gave that test a good long time: they gave it twelve weeks. And when they came to examine the automatic counters through which the girls dropped the relays, they found that output had jumped to an all-time high, meaning of course that all these various new conditions they introduced had no effect compared with certain other factors—the factors of being recognized, of being consulted, of feeling important.

Economic man or woman seems to be made mostly of straw. Modern managers are increasing output and morale by putting this assumption in its proper place as only one of many incentives, and, under certain conditions, only a minor incentive.

The fourteen men in the bank-wiring room at the Hawthorne plant provided an equally startling lesson. These men had formed an unofficial team, complete with leaders, for regulating production. Bonus plans and work-incentive schemes of management collapsed in impotence before this well-knit organization which nobody was ever conscious of organizing. And yet, woe betide any individual in a shop or an office who defies the unwritten regulations of such an informal group, which now func-

tions, or is potentially ready to function, wherever two or more people are working.

This is the second, and more negative, example of the functioning of "group dynamics," which I cited as one of the two central concepts social science has formulated.

Another widely held assumption is that workers have no place in management problems. It is for the boss to decide and for the worker to do what he is told. On the other hand, social scientists are finding that full participation by unions in top decisions creates an impossible administrative situation. The Russians experimented with that in the factories in 1920 when the unions took over; they found that production dropped to about 10 per cent of the prewar total. Again, complete company dictatorship, no matter how benevolent, stifles the normal desire of a human being to contribute ideas to his work and blocks off his interest and his energy.

Somewhere between these two extremes lie maximum morale and efficiency. At certain levels it has been repeatedly demonstrated that the worker can make helpful and important contributions to management problems. Scanlon's work, the history of the Amalgamated Clothing Workers, some of the labor-management production committees of the war, suggestion-box results, the training-within-industry programs of the War Manpower Commission—all show this trend. Its vast possibilities are just beginning to be opened up.

The class struggle is as cardinal in the Marxian hypothesis as "economic man" in the Manchester-school hypothesis. According to the Marxists, as you know, there are only two dynamic classes in any society, the owners and the workers, the exploiters and the exploited. History is

supposed to be nothing but the story of their timeless and unending warfare. Now there is just enough truth in the concept of the class struggle to make a powerful appeal to many people. Workers readily grasp at it when they feel that the future is hopeless. Labor leaders often base their strategy upon it, even though they have never read *Das Kapital.* It will come out as a set stereotype in some of the speeches of labor leaders. Witness the perorations about the wicked bosses and the downtrodden workers.

It is possible, furthermore, that many managers accept the class struggle as a fact without, of course, embracing the Marxian proposals for solving it. They sense antagonism in their employees and generalize it into an inevitable condition, two classes always opposed. In Europe, veneration for the doctrine is widespread on all levels, from employers to workers, not forgetting Mr. George Bernard Shaw.

But anthropologists and social psychologists report no such animal! You will not find the class struggle as a human universal in the Cross Cultural Index at Yale, in the sense that monogamy, for instance, is a universal.

That Cross Cultural Index is a very interesting storehouse of social science in which the various societies, tribes, or races, analyzed by competent anthropologists, are catalogued under their various habits and mores. Monogamy is found to be a human universal. In every society studied, the rank and file has been found to practice monogamy. In some societies you may find some polygamy or some polyandry on the side, indulged in by those who can either afford it or stand it. But by and large the mass of the people practice monogamy; it is a universal.

In *The Proper Study of Mankind,* I list thirty-three uni-

versals. Up at Yale you will find many more—but not class struggle.

Dr. Ralph Linton documents the way in which class struggles may appear in certain societies, or sections of societies, at certain times, especially in times of rapid cultural change. Down the ages, however, the typical society is one where each individual enjoys a particular status in his total culture pattern, is satisfied with it, and shows profound inertia about leaving it.

The chief motive that made the girls in the relay room at Hawthorne work so industriously was recovery of a sense of status, a sense of belonging.

Since the industrial revolution began, class struggles have been breaking out here and there—Harlan County, for instance—but they are temporary local outbreaks, a product of our factory system rather than of human nature.

If Linton and the social scientists are right, Marx is wrong. Lenin, Stalin, and the Kremlin are off in a blind alley. Human nature does not react the way they assume it does.

We do have social classes in America—six of them, according to Dr. Lloyd Warner and his co-workers—but the important thing that Warner and many other competent scientists point out is the mobility of the American class structure. The lower groups are constantly being upgraded while the upper groups come crashing down, as thousands of them did in the depression.

In Warner's six-volume study which he calls *Yankee City* (actually Newburyport, Massachusetts) and upon which John Marquand based *A Point of No Return,* you will find that the upper groups were dominated for a

long period by the old-line Yankees; then the French-Canadians, and then the Irish, and then the Jews began to come into town. They moved right up the class ladder until they were ousting many of the old-line Yankees, who did a tremendous nose dive down onto—what does Marquand call it?—Fish Street, or Clam Street.

The class-struggle doctrine lists all working farmers as "downtrodden peasants." The Kremlin leaders today wring their hands about the dreadful poverty of our American "serfs and peasants." Now it is perfectly true that there are pockets of dire poverty in American agriculture. But I was also told, while lecturing in Pullman, Washington, last month, that the average income after taxes of the "peasants" working the rich wheatlands in that county, in which the State Agricultural College is situated, was $28,000!

No, one cannot clamp the strait jacket of the class struggle on actual conditions in America, or Europe for that matter. It is a useless concept for predicting human behavior.

We have now taken a brief look at five assumptions widely held by Americans, including some managers:

First, people in the mass are not much good;

Second, man is inherently lazy—it's in the genes;

Third, pecuniary gain is the only real incentive, the doctrine of economic man;

Fourth, workers have no concern with the problems of management—"Let the boss decide";

Fifth, the doctrine of class struggle.

Social scientists in recent years have been taking these assumptions, and others as well, through a sort of wind

tunnel to test their validity, and the results are mostly negative. The contraptions do not fly.

III

Scientists have not been engaged only in knocking down popular concepts. They also offer managers valuable knowledge on how to improve human relations, how to increase both morale and output in the shop. Indeed, a whole new concept of the function of management is beginning to emerge from the work of social scientists in the last generation. Dr. F. J. Roethlisberger, co-author of that classic describing the Hawthorne experiments, *Management and the Worker,* puts it this way in the *Harvard Business Review:*

> I should like to suggest that the manager is neither managing men, nor managing work, but that he is managing a coordinated set of activities; he is administering a social system. This is the human relations approach, as contrasted with any approach which implies that people at work can be considered separately from their work.

When Joe Doakes goes through the factory gates and rings up his time, he takes his whole cultural background right along with him. The factory is not something sternly apart from the community, subject to more logical rules; it is inseparable from the community. It is as much the community as the house and lot, Main Street, the church, the school, the ball field, and the Elks. Joe will bring his misunderstanding with the wife at the breakfast table right through the factory gates to aggravate his none-too-happy relations with his supervisor.

Culture is a seamless web. All useful conclusions about human relations, the behavior of groups, and social psy-

chology are relevant to the factory, the office, and the profession of management. That came out very clearly when I took the J-Relations course in the Training-Within-Industry program with Remington Arms in Bridgeport during the war.

I was not being trained for supervisory activities—I was there to gather material to write an article—but I sat with supervisors and foremen and took the course and listened to their human-interest stories about the men working for them, and how trouble was cleared up, time after time, by going outside the factory into the home and remedying the situation there.

Let us look briefly at a sampling of some relevant research, of use and benefit to managers, that the social scientists are carrying on now.

For instance, there is aptitude testing. That is useful in all fields. It was particularly useful for selecting pilots during the war. We would probably still be fighting the war if it had not been for Flanagan's work on selecting pilots, and it has a great future in industry. Maybe it is not too much to hope that some day aptitude testing might be applied to candidates for Congress.

It may be interesting to note that Dr. Flanagan is now back at the University of Pittsburgh working on the characteristics that make a man or a woman a good executive and a good manager.

And there is public-opinion research. This technique is proving very helpful in giving both management and union officials a knowledge of how the rank and file feel about the shop.

When I was called in by the Standard Oil Company

of New Jersey to take a look at their labor relations, I could go around and interview shop stewards, supervisors, top management, representatives of all divisions of the plant and come to a general conclusion. But I was only one individual, and not too wise a one either. Then along comes Elmo Roper, goes down to Baton Rouge, and gets the opinion of *everybody* in the plant. Thus I was able to check some of my one-man conclusions with these public-opinion surveys. Some of them fortified what I had come to believe, and other conclusions of mine had to be thrown out the window. They just would not stand up.

Then there is the work being done on two-way communication. A healthy shop needs two open communication lines, from workers up to management and from management down to workers. Grievance machinery, suggestion boxes, application of some elementary principles of semantics, shop bulletins, and joint conferences are all being used in experiments to clear these communication lines.

I have mentioned social scientists as old-age counselors in one large company with an ambitious pension plan. The Hawthorne experiments have demonstrated that interviews by experts provide a valuable release of tensions and grievances for workers. Some companies are experimenting with skilled counselors for emotional disturbances. Counseling has a great future in industry.

Next, there is a very interesting new development which we might call a "vertical round table." Dr. Francis Bradshaw, an eminent psychologist, has started an interesting experiment in group dynamics at a large New Jersey plant. Its purpose is to improve communication and understanding between the seven levels of manage-

ment in that plant, from the junior supervisors up to the plant manager. They are meeting under the principles of group dynamics with Dr. Bradshaw as the leader and getting some very interesting results which may have a wide application in industry.

The technique of "role playing" is making some headway in industry, too. A union using it can put labor men in the shoes of company officials, prior to negotiating a contract. The management group, using role playing, can have a corresponding experience. A better plan for achieving mutual understanding is difficult to imagine. It ties in very closely with group dynamics. I first heard about it from Dr. Douglas MacGregor who was at M.I.T. The unions he was working with were pretending, in a preliminary session, that two or three of them represented the management and that the others represented the workers. Then they went to work and negotiated the contract in advance. This gave them a good idea of the other fellow's point of view.

The social scientists have a world of sound information on race and religious discrimination both in pure and applied science. Dr. Louis Wirth at the University of Chicago has done some outstanding work in the field of application. Perhaps you saw, in the magazine section of *The New York Times* one Sunday, a leading story about a five-volume study on discrimination in race and religion throughout American society as something that could be applied directly to management's problems.

Then there is the whole broad field of "conditions of industrial peace"—not struggle, but peace. You should take a look at the comparative studies now being published by the National Planning Association where a

score of companies with good labor relations over the years are being intensively analyzed to find those factors which tend to make good labor relations. We have had a lot of studies in bad labor relations, but this is something new.

Pension systems we mentioned earlier. Economist Sumner Schlichter and statistician Louis I. Dublin, vice-president of the Metropolitan Life Insurance Company, can be very helpful in analyzing the whole broad pension picture.

Labor unrest baffles a lot of us, and it baffles a lot of managers. But take a look at Volume IV of Warner's "Yankee City Series" to which we referred earlier. It contains a masterly account of the change that occurred in the shoe industry from a handicraft culture, where the worker was an independent craftsman, to mass production and mass distribution and mass finance, where he is just a cog in a vast, impersonal machine. You will get a much clearer picture than you ever had before of the psychological reasons for industrial unrest. Nobody can read this story without greatly broadening his understanding of the labor problem. I gave a whole chapter to it in the *Proper Study of Mankind*.

Now, the above is very far from a complete list of current research, but it gives us, I think, a fair sample of the kinds of findings which have helped and can help management in establishing social responsibility in the fifth year of the Atomic Age.

IV

Let us turn to a new and, I believe, very important consideration of our thesis. In his latest book, *Human*

Relations in a Changing World, Dr. Alexander Leighton, psychiatrist and anthropologist, devotes some chapters to the personal relations between the policymaker, the executive, and the social scientist, based on his own experiences in the Pacific theater during the war.

Once and again, a slight tinge of unprofessional bitterness creeps into the discussion, perhaps because Dr. Leighton's team, which included Clyde Kluckhohn and Ruth Benedict among others, took quite a beating from the high brass. But by and large, it is an objective account, making points of central significance to both policymakers and social scientists.

"The policy maker," says Leighton, in one of his disillusioned moments, "tends to use social science the way a drunk uses a lamp post, for support, not illumination." The high command in the Pacific tended to look on scientists, and especially social scientists, as long-haired, impractical visionaries, stuffed with theories.

Now this is not too far from the usual view by top management in industry until recently. If the conclusions of Leighton's team, out there in the Pacific, coincided with those of the high command, which were arrived at more or less intuitively, the generals and the admirals were complimentary. But if Leighton's conclusions did not support their own, then the "impractical visionary" stereotype was forthcoming, and the report was buried in the files.

Dr. Leighton first gives us a careful account of what his team did and the techniques it employed. I do not know where else you can find a detailed case study of technique of a good, modern team of social scientists.

A major problem for the generals and the admirals was

whether Japanese morale could be cracked and, if so, how. The morale of the fighting forces was known to be high, and it seemed likely that civilian morale on the home islands was equally strong. The high command was faced with decisions which involved human psychology, social behavior, the culture pattern of the Japanese people—problems not concerned with ballistics and logistics but with social science. Let me give you a short quotation from Leighton regarding the attitude of the high command:

> There were many in the top command . . . who felt that the Japanese morale was a solid wall of uniform strength which nothing could destroy except the actual killing of the men who displayed it. Every Japanese soldier was regarded as an ideal fighting machine—fearless, fanatic, obeying instantly—something not quite human that looked only for an opportunity to die for the Emperor. . . . Prisoners of war would be exceedingly rare and would be of no value as sources of information. . . . Psychological warfare would be useless, both for softening resistance, and for securing the surrender of soldiers.

You can see what a formidable task the executives had lined up for themselves by these assumptions: take no prisoners, fight for every foot of ground, prepare for a practically endless war!

Dr. Leighton's division went to work testing these concepts as their first task. To begin with, the team set up a list of fourteen basic statements about human nature, such as:

There exist psychological uniformities common to all the tribes, nations, and "races" of human beings.

All people, everywhere, are disturbed by threats to life

and health, by discomfort from pain, cold, heat, fatigue, and bad food, by threats to children and family, by enforced idleness (there's idleness again), restriction of movement, insecurity.

When the threshold for stress is exceeded, all people, everywhere, respond with known physiological patterns.

The division then constructed an information-screening machine which fed facts daily into the hopper, to be matched against the basic assumptions, in the way reports come into a central weather bureau to be mapped. The facts came from prisoner-of-war interviews, from captured diaries, captured letters—especially from Japanese officers, and captured official documents. They came from reports and from neutral observers in Japan, from translations of Japanese newspapers and magazines, from monitored Japanese broadcasts.

The team also collected background descriptions based on novels, histories, travel books, motion pictures, plays, and anthropological studies. Ruth Benedict prepared her analysis of Japanese culture, later published as *The Chrysanthemum and the Sword,* which many of you have read, or should read.

Despite the passions of war, Leighton's division kept their scientific objectivity. They knew that the Japanese were human, like anybody else, but equally important they learned to understand the unique behavior patterns of the Japanese culture. As a result they could reconstruct, with high probability, what was going on in the minds of Japanese soldiers. They told the American top command that under certain conditions the Japanese would surrender and give useful information, that they were neither supermen nor apes.

This conclusion was amply confirmed, later in the war, as Japanese units, both in the Philippines and Okinawa, surrendered first by the hundreds and then by the thousands and, as prisoners, cheerfully gave valuable information.

The predictions of the generals and the admirals about fighting for every foot of ground, about taking no prisoners, turned out to be completely wrong. Some of those predictions, as a matter of fact, would have fitted Germany better than Japan, for, although more Germans than Japanese surrendered in combat, Germany as a nation fought until it was dismembered. Japan quit while still a relatively whole and functioning country.

It would be hard to find a more dramatic and conclusive case of wrong judgment leading to wrong decisions which involved countless human lives. Fortunately, some of the military were sufficiently impressed by Leighton's reports to modify a few of their earlier decisions.

This example can form a starting point for a few observations about how policymakers and social scientists arrive at conclusions. Although the average executive tends to discount "theorists," thinking himself a very practical fellow, it was the scientists in the Pacific who tried to be objective, fact-conscious, shy of hasty generalizations, and the executives who indulged in some high and lofty theorizing. By and large, the high command tended to underestimate the Japanese strength before the war and to overestimate it during the war. We can discount for Leighton's frequent rebuffs but enough still remains to make an arresting point.

The typical executive has his own private psychological theories about human behavior. He does not call them

theories, but that, of course, is what they are. Everybody has theories, built up from childhood, about the behavior of other people. We could not deal with our fellow men without having theories about them.

Executives often show shrewdness, wisdom, tolerance, but they also tend to exhibit prejudices, sentiments, stereotyped responses, and current fashions in executive thinking. Compare, for example, the excitement about the term "free enterprise" today with the attitude of twenty years ago when the phrase was rarely mentioned. Common sense is highly prized by many executives, perhaps overprized. Common sense tells us, among other things, that the world is flat and that it is impossible for men to fly.

The social-science approach to human relations, says Leighton, differs from that of the executive in that neither the experience of one individual nor the popularity of an idea is accepted as a warrant for its truth. The scientist tries to build his concepts on a foundation of systematic observations by competent men, with many checks and no preconceptions. As a result, his conclusions, while not final, are often closer to reality than those of the average manager. Remember, we are not talking about the cost system in the drop-forge department but about human relations. Remember, too, that the most important policies and decisions of the manager lie in the field of human relations.

Both managers and social scientists use definitions, categories, facts, and logic to arrive at their conclusions. But in social science today, facts play the dominant role. Leighton pictures logic as a kind of bridge to tie facts

together. Reasoning that has very long spans between the piers of supporting facts must be suspect to a scientist.

The conclusions of the policymaker, however, are often reached by a bridge of logic with dangerously long spans between the piers of fact, or so it seemed in the Pacific theater. Sometimes the facts were not piers at all, but statistical festoons, unrelated to the foundation. Said a "big shot" to Leighton: "We are pressed for time this morning and must decide this matter at once. Tomorrow, we can figure out the reasons."

Dr. Leighton's team clashed repeatedly with the "big shots" and felt that they were not able to make their full contribution. But even with the differences between their modes of thought, the team helped to save many lives, both American and Japanese, by showing that the Japanese soldiers were only human. They might, indeed, have saved us the eternal shame of Hiroshima if their reports, submitted early in 1945 and demonstrating the collapse of morale on the home islands, had been read and acted upon by the high command. The team knew, nine months in advance, that Japan was going to collapse in the fall of 1945.

Leighton is convinced, however—and this is a very important point—that the social scientist, as such, should not make decisions. That is the executive's function. Scientists should lay the facts and the probabilities before the manager just as other experts, accountants, or engineers, or lawyers, do.

There are, of course, emergencies when the executive must decide hurriedly, as undoubtedly that chap whom we just quoted had to do. There is no time to marshal the piers of fact and build a careful structure of logic upon

them. "Snap!" as Uncle Ponderevo used to say in H. G. Wells' novel when he bought a new company.

The social scientist well understands the occasional necessity for such drastic action, but he cannot afford to prejudice his professional reputation by being responsible for it. The good scientist must deal in probabilities rather than absolutes. He must beware of becoming too closely identified with policy and of acquiring an emotional vested interest in it. He must keep his scientific detachment. It is far better for the executive to fire the social scientist, however wise, then to surrender the power of making decisions to him, for a surrender would corrupt both men.

The real solution is for managers, generally, to acquire a better understanding of modern social science and the way in which a scientist arrays facts and logic to reach conclusions. The manager himself needs to become something of a social scientist to get the most out of the new findings now pouring in. He especially needs to know more about checking his intuition against the growing body of dependable knowledge about human behavior. He needs, I think, a good, elementary grip on two new mental tools, the culture concept and semantics, using semantics as a means of clearing communication lines between people.

After all, this is not an especially advanced proposal. Most American top executives today are college men. More and more colleges are giving students large draughts of modern social science. I went down to the Case Institute of Technology in Cleveland the other day to help the faculty set up a course in social science, a compulsory course for all the freshmen. The Harvard School of Busi-

ness Administration, which is staffed with very competent scientists skilled in these tools, has, as you know, considerable prestige in executive circles. Dr. Leighton is now at Cornell. Even the Foreign Service Institute of our State Department is drilling career men, our future diplomats, in the culture concept.

The leader must lead, keeping the "long hairs" out of the front office. It is exciting and hopeful, however, to think of a future where leader and professional scientist not only co-operate but where the leader himself becomes a kind of amateur scientist.

From the Point of View of Labor

Stanley H. Ruttenberg

The social responsibilities of management, as I view them, are many and varied. It may be well to understand at the outset the full meaning of the words "social," "responsibility," and "management."

For "social" I assume the Webster definition, "pertaining to welfare of society in general," is appropriate. This would encompass our entire economic, political, and cultural life.

By the word "management," I refer to all the rungs of the ladder from the foreman to the top corporation executive.

In using the word "responsibility," I shall assume that all management people are interested in and willing to answer the why's and wherefore's of their conduct and action.

It can be seen from these three definitions that the scope of the problem which I intend to discuss is of considerable breadth. The horizons of management as well as labor have broadened markedly in recent years. This has been caused by necessity.

We have developed from a barter economy through the various stages of industrial revolution to our present high level of economic interchange. The problems of today's living are more involved, exceedingly more extensive, and far more interrelated than those of yesterday's

We have come to realize, in our domestic relations as in our foreign relations, that isolationism is a thing of the past. Neither labor nor management can isolate itself from the problems of the other. Of course, there are still many individual corporations, and some unions, that believe in tackling the labor-management problems from an isolationist point of view. However, in the main, unions and corporations have come to realize that many of our problems must be adjusted jointly through continual co-operation and consultation.

I shall discuss four aspects of the problem of the social responsibilities of management. They will deal, first, with the local community; second, with relationships with unions; third, with plant problems; and fourth, with the general economy.

At the outset, I should like to set forth each of these four points and then come back and examine them separately. In my judgment it is the social responsibility of management:

First, to work to improve local community conditions;

Second, to accept the principle of collective bargaining and to work with unions as institutions that are here to stay;

Third, to understand the fears and prejudices of workers toward scientific management;

Fourth, to engage in business practices to assure job opportunities for all workers.

I

One of the primary social responsibilities of management is to take an interest in the welfare of the people in the local community in which it operates. All too frequently, local management people divorce themselves from the task of improving local conditions in the community in which their employees live. There is no question that management groups frequently contribute, quite heavily, to charitable organizations. That is all to the good. But unfortunately they feel that their responsibility to their community ceases at that level, though their responsibility really commences after they have discharged their conscious obligation to charitable organizations.

Management people should take a positive and affirmative interest in improving the housing, educational, and recreational facilities of their community. I wonder how many top management executives have publicly supported and actively participated in efforts to secure low-cost housing for their community, housing that their workers could afford, housing which would enable their employees to live decently, housing which would enable their employees to have all the modern conveniences of the home, housing which would enable individuals to feel that they have a pride, a tie, in their community.

For example, I wonder how many top management executives have gone to Washington to support legislation for public low-cost housing. I wonder how many top management executives have worked in their local communities with the public-housing authorities to condemn slums, to secure land, and to aid in the manifold problems inci-

dent to the development of low-cost housing. On the contrary, many top management executives have stood by and watched real-estate developers fleece the public by building high-rental homes and apartments. Of course, a few top management executives who have engaged in improving local housing conditions are to be congratulated and urged to impress upon their fellow executives the importance of similar efforts to improve local community conditions.

In the field of education, I assume many corporations and management executives have played a more active role than in the field of housing. At local community levels it is exceedingly important to improve educational facilities. That should be considered a major social responsibility of management and of all groups in the community. There has been considerable opposition to federal aid to education. Many employer organizations, including the leading ones in this country, have opposed this type of legislation. Their opposition has stemmed, in part, from their desire to reduce government expenditures, to balance the budget, and, incidentally, to reduce federal taxes. Although there are many reasons why individuals have opposed legislation for federal aid to education, in the last analysis most add up to the cost factor.

I cannot help but comment, at this point, upon a development which I think indicates the social irresponsibility of management. This is the practice of large-scale, nationwide newspaper advertisements by specific corporations designed to "educate" the public on important issues. I use the word "educate" in quotes because these newspaper advertisements are not, to my mind, educational. Both labor and management should be able to present

their individual points of view to the public. And I am happy to say in this democratic country of ours that this is still possible. But when management groups engage in the practice of nation-wide campaigns, they do so at public expense.

Advertising is considered a "cost of operation" and consequently exempt from taxation. In effect, these corporations are using public monies to propagandize for their own interests. It would be far more advisable for them—if they believe, as I am sure they do, in democracy— to do less of this kind of advertising, pay the difference in taxes to the Federal Government, and thereby permit the establishment of a federal aid program designed to improve our democratic educational facilities.

I should like also to mention that some corporations are now beginning to promote lectures on economic problems during working hours and compel workers to attend. The pay of the worker is continued during this period of compulsory attendance. The cost of the lectures and all other incidental expenses are tax-exempt items. In other words, they are supported with public funds. These lectures are, in effect, given to what might be termed "captive" audiences.

It should be the social responsibility of management to entrust the education of our people to the educational system of this country, and, as a matter of fact, if they are really interested in educating the worker, as they appear to be by lecturing to captive audiences, they might well support legislation that would permit adult workers' education to take place in many of our educational institutions throughout the United States. That would certainly be in the best interests of our nation and would certainly

fall within the scope of the social responsibilities of management.

In most local communities, the problem of the aged worker is constantly increasing. Since the war, the problem of the handicapped worker has become further accentuated and, of course, the old problem of minority groups continues with us. I think it is an important social responsibility of management to engage in employment practices that permit the hiring of the aged, the handicapped, and members of minorities.

The problems of the aged worker would be considerably lessened, for example, if our social-security laws permitted adequate levels of pensions. It is a sad commentary upon the social responsibility of management that so little attention has been given to the aged workers' problems.

We originally passed social-security legislation in the Federal Congress in 1937 over the opposition of most employer groups in this country. Since that time all efforts to improve this legislation have met with the continual opposition of management groups. It was not until October 1949 that the House of Representatives passed a bill improving the benefits and coverage of our old-age and survivor program. Mind you, this bill was not passed until after the Steel Workers' Union engaged in a nationwide strike to secure a private pension program and not until after the collective-bargaining contract was signed between the United Automobile Workers and the Ford Motor Company. It took these actions on the part of trade-union groups to bring about pressure upon Congress to act to improve our social-security system.

Individual employers have supported various improve-

ments in our social-security laws. For this they are to be complimented. They should carry on their social responsibility by securing the aid of other employers and seeing to it that this piece of legislation which passed the House of Representatives is approved by the Senate. In other words, a basic contribution could be made by management to the social welfare of their community by their support for and the eventual adoption of improved social-security legislation. I could say the same about the need for a public-assistance program, as well as for minimum-wage legislation. Yet I must point out that legislation to accomplish these objectives has met repeatedly with the opposition of management groups.

What greater contribution can be made to community conditions than to give every individual, regardless of race, creed, or national origin, equal opportunity to jobs? There is much discussion in our Congress about the passage of fair employment practices legislation. From where does the opposition to this legislation come? Reluctantly, I must say, once again, that it comes mainly from the management groups.

Community relations would be considerably improved. The welfare of the individual would be benefited. Yet opposition to F.E.P.C. legislation from employer groups continues most vociferously. I can understand that their reasons for this may well be their opposition to the entrance of the Federal Government into this field through legislation. If that be the case, let the management groups assume the responsibility of voluntary action to permit the accomplishment of the same objective.

This applies to the problems of the aged worker and the handicapped worker as well as the minorities. I repeat,

it is a social irresponsibility of management, and of any other group that opposes legislation on these problems, not to take action to improve these local community conditions on a voluntary basis.

I want to deal briefly with another problem which local communities face—unemployment—not unemployment resulting from a lower level of business operations, but from conditions that make a particular community a distressed area.

I have in mind a specific example. This is not a common problem, but it is sufficiently serious for mention. One of our largest corporations in the United States was subcontracting a large portion of its work to Community X. Community X was almost completely dependent upon these orders. The moment the orders were cut off, the community was faced with the prospect of being a ghost town.

This major corporation decided, for reasons known only to itself, to build a plant of its own in a town forty or fifty miles away. After the completion of this plant, they shifted their orders. It so happened that this new plant was located in a thriving area where employment was exceedingly high and where, as a matter of fact, the labor market was very tight. But this major corporation moved anyway, causing considerable distress and unemployment in an area where unemployment was already reaching serious proportions.

In this type of situation—and I can cite similar ones—I feel that it is a social responsibility of management to be concerned about the welfare of the workers who have been dependent upon it for so many years. It is very important that management realize its social responsibility

to work to improve local community conditions by improving the housing and educational facilities of the community and by adopting employment practices most consistent with improving the welfare of the entire population of the community.

II

A second area of social responsibility of management concerns the problems relating to the acceptance of the principle of collective bargaining by management groups. It is an important responsibility of management to recognize that unions are here to stay, that they have a contribution to make to the community, and that it is in the interest of the corporation and its workers for the principles of collective bargaining and labor-management cooperation to be completely accepted.

There has been much progress in trade-union organization in this country in recent years. At the turn of the century there were less than two million organized workers in the United States. Today there are more than sixteen million workers organized into trade-unions. Collective bargaining has been established in almost all the mass-production industries in this country. Living and working conditions are considerably improved as a result of the establishment of trade-unions.

I can recall as an organizer out in the Ohio industrial valley in the early days of the C.I.O., some thirteen or fourteen years ago, the reluctance with which many employers agreed to sit down at the collective-bargaining table to work out solutions to grievances which workers had borne for many years.

In the past thirteen years much progress has been made in this field. Many employers now sit down quite willingly to bargain with workers. Many more should also follow this practice. But I must say to those management groups that are still fighting trade-unions that it is their social responsibility to engage in collective-bargaining practices. Unions have become a part of the American way of life. They are as much a part of our society as any other component. It is the responsibility of management to deal and work with them. It is important that unions and management have confidence in each other.

My experience as an organizer in years gone by has shown me that the degree of responsibility in union leadership is contingent upon the degree of responsibility exercised and exhibited by management. In other words, managment's leadership determines the type of leadership which develops in the local union. I can remember the days when the phrase "irresponsible unions" was on the tongues of many management people. The fact those management people did not realize was that these unions exhibited the same amount of irresponsibility as did management in its contact with the union.

This situation has met with considerable improvement in recent years. To those groups in America, however, who are still fighting unions and fighting collective bargaining, I say it is their social responsibility to accept unions and to work with them.

I might add, parenthetically, that almost everyone says he believes in unions and in collective bargaining. In the last analysis, however, many who say they do, in effect, do not. It is to those people that I direct these comments.

There is another area of labor-management relations

which should be mentioned at this point, the establishment of labor-management production committees. During the war, the War Production Board considered this problem of sufficient importance to urge all management groups to establish such committees; some three thousand were formed. Many, however, have gone out of existence since the war. The main function and responsibility of these committees was to encourage co-operation between labor and management in finding ways and means of improving efficiency, increasing production, and cutting costs.

Here is an area where labor and management can develop wholehearted, positive co-operation. I should like to cite a specific example of the contribution a committee of this type can make:

About three years ago there was a steel plant owned by a corporation which was, as a unit, losing money. It was a high-cost operation. Its margins were extremely low. The corporation decided that it would sell this one plant. A new management bought it and took over.

Under the old management there was a union. There were many wildcat strikes, there were many grievances and cases going to arbitration, and in many instances neither the company nor the union would accept the arbitrators' decision after it was granted.

When the new management took control, they held a mass meeting of the workers and the union representatives and said, "The future of this plant, our profits and your income, is dependent upon whether we can increase the efficiency and reduce costs in such a way as to enable us to pay you a fair wage, make a fair profit, and return a reasonable amount to our stockholders."

"And," the management continued, "we think we can do this by asking, and using, the brains, the initiative, and the intelligence of the individual workers within the plant, by urging you to establish labor-management production committees to make suggestions about production techniques, increasing efficiency, reducing costs, making certain changes in plant operations, and so forth."

In each department, a committee was established to work on the problem of improving efficiency. Today that plant is one of the most profitable of its kind in the entire steel industry. The wages of the individual workers within the plant are now about eight cents above the industry average as compared with ten cents below the industry average under the old management. There has not been a single wildcat strike. There has been only one case that has gone to arbitration, and almost every grievance is settled at the early stages.

This is just one positive example of the development of sound labor-management relations. This does not mean that labor desires to take over the management of business; it indicates only that management should utilize the ability, skill, and training of its workmen in finding a solution to many of its production problems.

The principle of collective bargaining is being accepted. More and more management groups are beginning to realize that unions are here to stay and that unions have a contribution to make to the success of plant operations. Consequently, these groups are prepared to work with unions and workers in their own plants. I commend this to you as the second major social responsibility of management.

III

Scientific management developed in the early part of this century as a technique of reducing costs and improving efficiency of operations. Over a period of years, the concept of scientific management has grown into disrepute because management groups did not, and many do not now, understand the fears and prejudices of their workers.

Scientific management soon came to be associated with the speedup, the Bideau System, and time-and-motion studies. Time-and-motion studies, in turn, came to be associated with an increased workload for less pay. Workers found themselves working harder and earning less. They came to distrust the man who stood over their shoulders with a stop watch. There was little responsibility shown on the part of management in adopting sound and acceptable incentive systems.

Generally speaking, unions are opposed to incentive systems. It is most difficult to convince workers that their fear of time-and-motion studies and incentive systems is groundless because they know better. They know that time-and-motion studies and incentive systems developed unilaterally by management are usually part and parcel of speedup.

When employers conscientiously accept unions, they realize that the prejudices of the workers can be overcome. Various types of incentive systems have been worked out bilaterally by representatives of workers and management. In those instances the system has worked out fairly well, and the fears and prejudices of workers have been reduced.

I therefore cite this example of labor-management co-operation as another social responsibility of management. By the acceptance of such co-operation, the doubts of the workers can be eliminated with resulting reduced costs, increased efficiency, and improved worker morale.

Many management people wonder why unions in the main have opposed the concept of profit sharing. Normally unions are extremely skeptical about the benefits of profit-sharing arrangements. Some of the fears and prejudices they have toward scientific management as a result of the speedup apply to the general area of profit sharing.

For example, profit-sharing plans have been used to stimulate the speedup. They have been superimposed upon a wage structure as a means of driving the individual to produce more than what is considered to be a fair day's work. Profit-sharing plans have been developed, like incentive systems, on a unilateral basis. Frequently, profit-sharing plans have developed as a substitute for the payment of an adequate hourly, daily, and weekly wage. Such aspects subject these plans to immediate skepticism, criticism, and opposition by workers.

I am sure, if management recognized its social responsibility to eliminate these fears and prejudices, that sounder, more effective relationships between labor and management would be established.

IV

I come now to the fourth area of the social responsibility of management. I can think of no greater social responsibility of management than to assure job opportunities for all workers. I shall discuss this problem from the standpoint of our national economy as a whole.

Each individual corporation or company has a responsibility to carry out the basic objective of developing a full-employment, full-production economy. There must be co-operation and co-ordination between all groups. Individual employers must know the significance of their roles in the over-all economic program.

The most fundamental economic problem we face is the necessity of providing new job opportunities for all workers willing and able to work. Each year between three quarters of a million and one million new workers enter the labor force and must be provided with employment. This is a net increase, over and above the number of workers who die, retire, or leave the job market for other reasons.

In addition to this group of new workers, job opportunities must be provided for more than a million additional workers who each year are displaced as a result of technological developments. Total employment must increase each year, therefore, by at least two million if we are to absorb the new as well as the displaced worker.

Over the decades we have been relatively successful in providing new job opportunities for these people. However, in the immediate postwar period we have not. For example, during the first three months of 1948 we had an average of approximately two and one-half million workers unemployed. During the same period of 1949 there were three and one-half million, and during the same period of 1950 there were four and one-half million workers unemployed.

Our peacetime economy has not been advancing rapidly enough to absorb the increase in the labor force. This is a serious situation. Within a five-year period we may well

have close to ten to eleven million unemployed if we proceed in the same way as we have in the past three years.

It is a major social responsibility of management to work out programs and policies which will lead to an ever-enlarged national economy. This requires that management have broad social and economic vision and the ability to envisage an ever-increasing demand for its products. Goals of production in the years ahead must exceed production of past years. Unless this is done we shall be unsuccessful in providing full employment and full production. Let us take a specific example again:

It is estimated that the steel industry, during the next decade, should have a capacity of some 120 million ingot tons. Its present capacity is in the neighborhood of 95 million tons. The industry is not increasing its capacity to meet the anticipated needs in the years ahead. The reason given for not expanding as rapidly as estimates warrant is based upon the assumption that current demand is excessive and above the anticipated long-range demand for steel.

Yet if we relate growing population to consumption of steel per capita over the past years, it is quite conceivable that the demand will be at least in the order of 120 million tons a decade hence.

I think it is a social responsibility of steel management to recognize the necessity for expanding its capacity more rapidly than it is doing today. I take the steel industry only as an example. The same can be said for many of our basic industries.

Expansion of capacity, of course, is in itself not the entire answer nor the complete solution. A concomitant set of policies must be developed simultaneously. As pro-

duction increases and new supplies are brought into the market, theoretically, prices should become lower. In a highly competitive economy, this would happen.

However, in our economy, where we have a very high degree of economic concentration in our basic industries, much of the competitive spirit is nonexistent. Prices are administered through the monopolies and oligarchies. It is therefore a social responsibility of management not only to expand capacities to meet growing needs and growing demands but also to adopt the proper price-profit-production relationship.

For example, if steel capacity were expanded, the automobile industry could then increase the production of automobiles, a product which is still scarce. However, it is questionable how many more automobiles would be purchased if the average price remained at its present level.

This means that as steel production is expanded, the steel industry must be willing to reduce its price, thus enabling the automobile industry to produce a cheaper car. If the price of other materials going into the production of automobiles were also decreased, a very cheap car could be produced to meet the mass market that exists in America for such a product.

All this, of course, assumes that the automobile industry will pass on these reduced prices to the ultimate consumer. The acceptance of this philosophy of expansion of capacity with resultant lower prices necessitates an acceptance by management of a very fundamental concept. That concept runs quite contrary to the currently accepted economic basis for determining prices and levels of production.

For example, corporations, in the main, maximize profits through high margins on each unit of production, by limiting production and increasing prices. This is the antithesis of the more socially responsible position of maximizing profits through low margin per unit of output by increasing production and reducing prices.

In an ever-expanding economy where production is increasing, prices must fall to permit an absorption of the increased product. It is therefore, I repeat, a major social responsibility for management to adopt enlightened economic policies looking toward higher levels of production, lower levels of prices, and reduced margins per unit of sale.

Up to this point, I have not mentioned the problem of wages. But in an expanding economy, wage-and-price policy is as important as any other phase of our involved economy. It is through high levels of wages and consumer income that the mass of the American people would be enabled to raise living standards and absorb high levels of production.

In other words, a high consumption level economy can be developed through proper wage-price-profit-production relationships.

I would like to cite an example of social irresponsibility in this field of wages and prices:

Not long ago, at a public meeting of stockholders, a top executive of one of America's largest corporations said: "It is essential to make these high profits in order to permit an adequate amount of reserves to be set aside for future needs, since the day will come when steel operations are at a lower rate than at the present time."

I urge you to think about that statement for a moment.

What he is really saying is this: "We must have as high a price as possible for our steel products so that we can make as high a dollar profit as we can during this period to protect ourselves against the future depression when the demand for steel products will fall off."

This concept of high margin per unit of output is self-defeating. It brings on the decline in consumption with the consequent effects of falling production and unemployment. A full employment economy cannot be developed on that basis. It is socially irresponsible for management to follow this kind of a pricing policy.

I should like to refer briefly to the problems of technological developments once again. Technological developments are the result of increased investment in more efficient new plant and equipment. These displace workers, increase productivity, and reduce operating costs. Reduced operating costs may be passed on to the consumer in the form of lower prices, or to the worker in the form of higher wages, or can be retained by the corporation in increased profits. I regret to say that increased technological developments of the past few years have resulted more often in increased profits than in reduced prices or increased wages.

For example, an examination of the profit statements of many of the larger corporations for the year 1949 shows that net income increased even though net sales declined. This is mainly due to decreased cost resulting from technological developments. These lowered costs have not been passed on to the consumer or to the worker but instead have been retained by the corporations in the form of higher profits.

This generalization, of course, is not true of all corpora-

tions, but I point out that it is a major responsibility of management to pass on the benefits of productivity to all groups, including the workers, the consumers, and the stockholders.

I have examined, rather critically, some of the factors which, from labor's point of view, are social responsibilities of management. While I have been critical of management in general, in most of these areas there are many enlightened groups following sound and intelligent policies that are socially responsible.

Labor would appreciate this same type of analysis of the social responsibilities of labor as viewed by management. I hope that in the long run it becomes a co-operative effort of both labor and management to develop sound and intelligent social responsibilities which lead to an extension of the free democratic institutions that have come to be recognized as a part of the American way of life.

From the Point of View of the Economist

Edwin G. Nourse

I feel that I am on familiar ground in a school for the training of business executives because I began my teaching at the Wharton School of Finance and Commerce. I switched to agricultural economics for a time because of my belief that the realistic and analytical approaches used to solve problems of business management needed to be developed, perhaps more pressingly, in the agricultural area, and I thought that the training I had received in the school of business could be carried over to this new field.

But I was still working on the general problem of price relations, or the distributive side of our industrial organization, so that I never really changed careers but continued work on the problem through a series of different settings. I hope that this resulted in giving me a somewhat more rounded view of the nature of a total economy. It certainly made we aware of the problem of giving the several segments of the economy a fuller understanding of the part which they may play in the working out of a more stable prosperity for our economy as a whole. That was, of

course, the distinctive feature introduced in the Employment Act of 1946.

There was also the attempt in that Act to bring the professional approach to the study of the problems of the economy as a whole, to produce an integration of policy based on a sound understanding of the interrelated functioning of the several parts. This concept is congenial to my thinking; I will hark back to it in discussing the particular topic assigned to me.

I feel that the program makers did very well in breaking down the topic of business management's social responsibilities into four parts and in asking four men of different background, different training, and different association to discuss the matter from their respective lines of approach. It is reasonable to suppose that you would get a clear difference of emphasis and attitude from the representatives of management and of labor. It would not seem to me anywhere so certain that you would get a real difference between the other two speakers; one labeled "economist," the other, "social engineer."

I am prone to admit, if not to boast, that the economist is, in fact, an engineer; that is, a "wealth" engineer. Since economics is a social science, the economist might properly be called a social engineer. I put the matter thus in a recent paper before the American Philosophical Society:

> Economists are not in quest of ageless and timeless laws, which will have universal applicability to a changeless subject matter like the solar or the cosmic system or like chemical elements and physical forces. We must deal with the aspiring and the rebellious, the competitive and the cooperative, and the sometimes patterned but often random, phenomena of human minds and souls. Moreover,

> we meet these phenomena not in fixed or fully repetitive situations but in a constant flux of evolving and often contradictory developments. Our profession, therefore, partakes of the nature of applied science or engineering. We seek to derive and apply generalizations valid for particular subject matter, limited as to both time and place. These understandings, such as they are, we apply, like the engineer, in the designing and adjusting of social machines—that is, institutions—through which alone these forces can work, be directed, and to some extent controlled.
>
> But the economist's task does not stop there. He undertakes to apply his progressively improving generalizations or principles to the devising of economic policies, public and private. These policies furnish the logical framework under which individuals and organized groups develop concrete programs and specific plans of action. Such policies, programs, and plans seek most effective utilization of the fundamental economic forces to the ends of human life through mechanisms devised for their application.

In the same paper I expatiated on the social developments under the Employment Act with its dual agencies, the Council of Economic Advisers in the Executive Office of the President and the Joint Committee of the Congress.

The question I will try to answer in this symposium might, therefore, in the light of this background, be rephrased to read: "What policies should management follow in our modern, institutionalized business world in order to make business serve the social welfare most fully?"

At first glance it might seem that the four papers in this symposium could be regarded as a series of concentric circles, with social engineering as the outer and largest;

or as a pyramid, broadening through four successive stages—labor, management, economics, social engineering.

In such a scheme, labor might define the responsibility of management most narrowly, as merely paying proper wages and maintaining desirable working conditions; that is, labor of the old school, like John L. Lewis, or the more old-fashioned craft unions in the A.F. of L. ranks. I will comment later on the fact, having had a chance to see Mr. Ruttenberg's paper, that he represents a broader viewpoint, and you will see how that is related to my general presentations.

But if the old-school labor point of view had the narrowest interpretation of management's responsibility, merely to pay proper wages and maintain desirable working conditions, management might define it somewhat more broadly as dealing equitably not only with employees but also with stockholders and with customers.

The economist might define it still more broadly, not merely as securing proper relations in the market—the labor market, the commodity market, and the money market—but also as promoting the best allocation of resources, national and world-wide, for productive use.

The social engineer might state his requirements for good management in still more ambitious terms by saying that besides good wage-and-price relations, adequate provision of jobs, and efficient allocation of resources, it should achieve also certain social desiderata, such as conservation of human and natural resources, the promotion of personal liberties, and both peaceful and stimulating human relationships.

I

The thesis I shall attempt to present to you is that these four criteria of responsibility are, in fact, the same, although stated with varying degrees of fullness. Specifically, the economist's view concerning the social responsibilities of management should not be any more limited than that of the social engineer. And simply because all these higher values about which the economist talks must be comprised within sound, long-range policies for the economy as a whole is no reason for the outlook of management or labor to be any less inclusive. Indeed, neither can afford a more restricted view. The interpretation of their own responsibilities by labor and management should not be more narrowly technical or ex parte than that of the economist or even the social engineer because both factions can thrive only as part of a continuously prosperous, well-adjusted economy.

In other words, there is one basic requirement for the greatest harmony and efficiency in the activities of the management or, as I prefer to call it, the administration of our industrial process. Every operation of our economic society, in organized labor, in professional management, in government relationships, in economic statesmanship, and in the social understanding and behavior of our people, should be infused with a broad spirit of solidarity in the approach to the working relationships among private interest groups and between private and public forms of organization. That seems to me one of the greatest possibilities under the Employment Act—the achievement of real liaison between the field of private enterprise and that of government action.

This concept of solidarity was a major premise from which I started my analysis of managerial policy in my study, *Price Making in a Democracy.* I would like to quote some lines from my own work:

> . . . there is an underlying solidarity of interest among all parts of an economy and hence among all the participants in its business life. Such solidarity expresses itself as a common concern for maximum production. . . . Particular firms in sheltered trades or in peculiar individual circumstances may for all practical purposes seem to lie outside or be able to ignore the principle of economic solidarity. They may pursue their own immediate advantage without regard to the wider repercussions on other companies or individuals or the remoter time effects of any management policy that they may see fit to follow. . . . But . . . as a fundamental principle for businessmen seeking long-run profits for the majority of companies, I see no escape from the proposition that they can make the largest ultimate gains from doing business in a society which is maintained on a high level of activity and low-level costs attained through operative efficiency, and that to the maintenance of such a condition the individual company must consciously undertake to make its own particular contribution, it's "cut," in the total product being determined on the basis of its productive contribution, measured with as much scientific accuracy as possible.

I know of no method of statistical or theoretical "proof" that could be invoked to verify so elemental a proposition. It seems to me to state the basic logic of a self-administered system.

II

Now I will pass on to a section which I will call "Management's Own Concept of Responsibility."

It is notorious that the interpretation of the businessman's role prevalent in the earlier days of proprietary business did not recognize any such concept of economic solidarity, nor did it follow policies and practices that would stem from such a concept. The phrase "social responsibility" was almost completely absent from the business vocabulary.

Let us turn, therefore, to the broader formulations of the working code of management that the best professional executives of modern corporate or institutional business give us. I shall quote a single one as being essentially typical of scores, perhaps hundreds, of statements which have become more or less current among the more enlightened class of business executives in recent years. This one happens to be from Lewis Brown, the head of Johns-Manville, and was written about ten years ago in a symposium called, *The New Outlook in Business:*

> In the evolution of a complex industrial society the social responsibility of management has broadened correspondingly. Management no longer represents, as it once did, merely the *single interest* of ownership; increasingly it functions on the basis of a *trusteeship* which endeavors to maintain, between four basic interlocking groups, a proper balance of equity. Today the executive head of every business is accountable not only to his stockholders, but to the members of his working organization, to his customers, and to the public.
>
> . . . decisions on industrial and economic policies which once were made solely from the standpoint of private interest and profit considerations, must now be evaluated in terms of *consequence* [he does not say "ethics," or anything of that sort, he says "in terms of consequence"] not

merely to one individual company, but to an entire industry of which the particular company may be a comparatively minor unit.

If this statement were expanded to include not only the entire industry, of which the particular company may be a "minor unit," but also the entire economy, of which the industry is an integral part, this executive's statement of management's responsibility might seem to conform essentially to the concept of solidarity which I have proposed.

In my judgment, however, the statement, noble as it sounds, is defective. It retains the flavor of proprietary business in which the bosses conceived themselves to be—and in fact were—the arbiters of the business process. They thought it their unquestionable prerogative to decide what labor should have, what the public should get in the matter of quality, price, and service, and how great should be the reward of capital as the residual claimant.

This was the benchmark of their philosophy. At its best as shown in the "trusteeship" concept quoted above, there is a fine baronial flavor generously tinctured with noblesse oblige. This is an aristocratic and ethical approach, quite different from the democratic and scientific one called for by the conditions of today and tomorrow. It really conceives of business as a vested interest and an end in itself rather than a means to an end.

Since business managers quite generally accept Adam Smith as their prophet, it may be well to recall his statement of their responsibility 175 years ago in his *Wealth of Nations*:

Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended

to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it. But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption as the ultimate end and object of all industry and commerce.

The Employment Act of 1946 seems to be the best formulation we have yet had of this classic Smithian philosophy, brought up to date, given the prestige of public sanction, and provided with public agencies for its effectuation. In my judgment, it preserves the system of private enterprise, with only a minimum of government intervention, in the true spirit of Adam Smith's philosophy. I shall therefore use the Employment Act freely as a vehicle for my interpretation, as an economist, of the responsibilities of management. I shall consider what kind of responsibility management will have to discharge if the social purposes enunciated in the Employment Act are to be adequately fulfilled. In this, I do not presume to speak for economists generally, but simply as one economist who belongs to a certain school of thought, who has had a particular experience with today's business executives and labor-union officials, and who has made certain explorations into the practical application of the Employment Act.

Public Law 304, the Employment Act of 1946, is generally thought of as a "full employment" act, and there is a strong tendency to make the provision of jobs for all—or even of "more jobs than men"—a responsibility that the citizen or the private worker can lay upon management or the government, or the two together.

But as I understand the legislative history of the Employment Act, government guarantee of jobs was definitely written out. Instead, the Act expressed an intention that the government should provide general institutional, fiscal, and monetary conditions under which private management would have the most favorable conditions for furnishing employment opportunities for those "able, willing, and seeking to work."

Although maximum employment is stated as one of the three prime objectives of the Act, this goal has always seemed to me incidental and implied in the goal of maximum production—production with the best of technology, the most adequate equipment, and the most efficient management.

In the spirit of Adam Smith's definition the goal of maximum purchasing power set forth in the Act and interpreted as consumer real income would be the end result to be sought, with maximum production as a necessary antecedent condition. Since we have lived in an era of "production economics" rather than consumer economics during most of the time since Smith formulated his classic statement, I have been inclined to speak of maximum production as the prime goal of public and private policy under the Employment Act. That was developed to some extent in the Third Annual Report to the President by the Council of Economic Advisers in December 1948. At the same time, however, I have stressed, as I did in my previous work at Brookings, that the production process cannot be kept at a sustained maximum level unless consumer real income is kept at a correspondingly high level or, in other words, unless our system of mass distribution

is geared with a high degree of perfection to our system of high-efficiency mass production.

In this setting, then, I should say that from the standpoint of the economist—as I interpret economics—the responsibility of the manager or administrator in our modern industrial society is to participate effectively in working out a set of distributive arrangements which will furnish incentive to capital, to labor, and to owners of natural resources to put these factors freely at the disposal of the productive process.

On the other side, the responsibility of the manager is also to participate in a pricing and promotional process—a selling process—which will balance propensities to spend and propensities to save in such a way as to maintain a necessary, but not cloying, rate of capital formation and a hearty rate of consumption, but not one that would sap the strength of the productive organization itself.

III

The responsibility of management in our modern industrial society is not something that can be considered by itself alone. In the statement just above, I have defined it as that of "participating effectively in a process" of making price and income adjustments.

The other major participant in this process is organized labor. But there is also another, a public side, to the economic process. The joint participation of labor and management in price-income adjustments must be related to the institutional, regulatory, and even operative participation of government in the economic process. Of this relationship I shall speak only briefly and even that comment must for the moment be deferred.

The process of bilateral adjustment of price-income relationships between management and labor is what we know familiarly as collective bargaining. It began rather simply as small-scale bargaining about a wage rate and a relatively limited number of specific working conditions. It has now come to be national bargaining about practically everything, including pay, seniority, working relations, health and accident benefits, and old-age security. More than this, the techniques of operation and the policies of management in its pricing and investment program are increasingly brought under review, if not under actual negotiation, in the process of collective bargaining as it is now conducted.

I have said that as an economist I was not satisfied with the assumption by management of a responsibility for making unilateral determinations covering the whole of the income-price adjustment process. My statement that management is merely one participant in that income-price adjustment implies that organized labor is the other major participant. But accepting this fact simply precipitates us into the tight, tense, and complicated issue of how far management has to abdicate sovereignty in these areas and on what issues and to what extent it is economically appropriate and helpful toward the achievement of stable relations to have the voice of labor heard in the making of bilateral agreements. They really are quadrilateral agreements since, in fact, labor speaks both for the worker and the consumer and management speaks both for management, in a professional sense, and for owners and creditors.

This is not a question of whether labor is to enter into these relationships. Labor, even if you have nothing more

than a strike, is in the process to a very considerable extent. The delicate question now is how close that relationship should be from the point of view of over-all economic policy. I shall not attempt to make any pontifical pronouncement on that issue. It is obvious from what I have already said that I believe that the success of a private enterprise system in a land of freedom is best assured by this method of adjustment to changing conditions.

But no formula for the myriad individual settlements that have to be tailored to special and changing local conditions can be offered. If I had time I should like to go back to my presidential address, some six or seven years ago at the American Economic Association, in which I elaborated that point, attacking the arrogance of the philosophy of policy making by the public which is going about today and saying that it is impossible, in my judgment, to formulate a blueprint of the common good. The point I made there was that policy is best made by deciding between particular alternatives faced by labor groups —whether they would rather strike for what they can get or continue work even with conditions that are not entirely satisfactory to them or, more particularly, to the heads of the union.

I think that when the decision is taken away from the people whose fortunes are affected by that decision you have something which is essentially noneconomic in its character. And that is why I say no formula can be made in advance. People have to be brought to the table across which the several alternatives are actually considered and the choices made according to the preference of those who are going to have to live with the consequences.

Enlightened management has gone a considerable dis-

tance toward meeting this responsibility. Today, business executives often feel that achievement of full success in this direction is impeded by the unreasonableness, or the lack of understanding of functional requirements, on the part of some leaders of labor groups and by the power which they have acquired under present labor institutions to enforce their policies upon management, regardless of how economically unworkable they may be. That is why this process is one that must rely on methods of science rather than those of group force.

It is in this area that the dilemma of socially responsible management lies at the present time. Where the market situation is basically competitive, such as in textiles and clothing, a considerable degree of success has been achieved by relying upon bilateral collective bargaining in good faith as a means of arriving at intraindustry adjustments which will permit productive operations to go forward without crippling interruptions. An example of this is the case of the settlement last fall when the textile workers decided that they would forgo the settlement of their claims as the more attractive of the alternatives when the other one was less employment. They would continue a contract and go back to work even though they were not satisfied with that contract. They knew that it was the better of the alternatives within practical reach at that time.

In the basic heavy industries, characterized by monopoloid conditions on both the managerial and the union side, the irresistible force of union demands not infrequently meets the immovable body of industrial resistance and an impasse of truly alarming proportions results. The coal, steel, and auto strikes will of course immediately

occur to your mind as illustrations. The point that seems significant is that both parties, in varying degrees, show a tendency, when they come to that impasse, to refuse to accept the implications of a free-enterprise system gradually perfecting methods of voluntary settlement along lines of economic sophistication or, as I have said before, application of scientific methods of economic adjustment. Instead they turn to the escapism of government intervention. This may take the form of demands by management for legislation to put the unions in their place, that is, the use of methods of repression rather than enlightenment. Or, on labor's side, it may be denunciation as slave-labor acts of almost any legislation designed to curb the unilateral power of unions.

This escapism may demand public support or subsidies for a sick industry. It may even go so far as to accept nationalization rather than yield to union participation in areas traditionally claimed as management's exclusive prerogative.

When I was still chairman of the Council of Economic Advisers, the head of a leading company in a heavy industry asked if I would drop in and see him when I was in New York. I did. He wanted to know what would happen if the impasse that existed in his industry was allowed to go to the condition of actual strike. I told him that in my judgment that would be one more in a sequence of events which would lead to government intervention and, in all probability, eventually to nationalization of that industry. I was utterly amazed as I listened to the processes of his thinking and, again, when I noted the company's action later to see that he was willing to allow the thing to come to a strike in spite of the fact that the

best offers the company made were only a very short distance from the demand on which the break came.

That situation stands as a warning for those of us who believe in the desirability of preserving a free-enterprise system or who believe that the step of nationalization in any of our basic industries is a fatal step away from the system we have known and cherished and prospered by to a different one—and I will not apply any other adjectives to it, just "different."

More inclusive and more insidious than any of the other manifestations of managerial escapism is the acceptance of the idea that government, through the aggregative approach of fiscal policy, can offset the industrial depression or stagnation that may come as the result of failure to bargain out workable income-price adjustments in the area of the administered market.

We are coming, today, to a better understanding of the constructive role that the fiscal and monetary activities of the government play in conditioning both producers and consumers for their conduct of market operations. We are also coming to a realization that events have determined that the role played by the fiscal policies and programs of government will in the future be significantly larger than it has been. I could stop to elaborate on that, but I think the point is clear.

Management will be dodging its own responsibilities if it looks to government to maintain over-all markets and jobs even if management and labor fail to come to terms that combine job opportunities with market absorption in the myriad local situations where adjustment has to take place.

It was my contention, while I was on the Council of Economic Advisers, that we should not hold out to the public the idea that the government should or, indeed, could, in a free economy, supersede management in providing jobs and promoting high real incomes or maximum purchasing power for the consumer. Fiscal policy, compensatory spending, or whatever formula you use can be a helpful adjunct to private administration, but none should be looked to as a substitute for it.

On the other hand, the proper tasks of fiscal policy can, in my judgment, be rendered quite impossible if private enterprise, managerial and union, is not conducted in such a way as to make the innumerable fast-changing price, wage, and other income adjustments such as to facilitate a well-nigh perfect balance between current productive and consumptive operations.

In other words, we must refuse to allow these struggles to come to an impasse. To understand the current shift in thinking about the responsibilities of management, of labor, and of government in supplying job opportunities and consumer satisfactions, we need to see it in the perspective of antecedent developments.

From far back in our industrial history, labor has been inclined to rely upon the enterprising ability of management to push the volume or tempo of production operations ahead at about as rapid a rate as the development of technology and the availability of resources permitted.

They had, however, been skeptical of the willingness of management to share the fruits of this expanding production with workers or with consumers in general. Union labor's philosophy was, therefore, largely to support the free-enterprise system, to urge that it have great free-

dom to go ahead and exploit profit-making opportunities, whereupon, through union organization, "We'll get ours!"

Management was disposed to accept the challenge, to be confident of its ability to provide jobs and defend their profits against undue encroachments by labor.

This complacent attitude on both sides was somewhat shaken by the threat of a possibly chronic stagnation aroused by the prolonged depression of the thirties. That was, I believe, the turning point in the economic life of this country.

Labor became less confident that management, under such institutional arrangements as had developed, could or would furnish the full quota of jobs together with the advancing productivity from which they could, by strong-arm bargaining, exact steadily advancing standards of living.

Management, on its part, displayed a less ebullient confidence in its ability to rebound promptly from every cyclical setback and to expand with the same spirit and vigor as was evident during our pioneering period. It was not so much shaken concerning its own ability to achieve technological and organizational triumphs as it was disposed to say that management was being prevented from achieving such successes. The managerial groups complained that it was impossible for them to keep the business car from going into the ditch when labor was doing such persistent and unskillful back-seat driving, or when they were, through the rigidities imposed by the fiscal policies of government, so severely handicapped in getting the car out of the ditch, readjusted, and back at a high rate of operation.

Thus, some managerial thinking seems to be succumbing more and more to the escapism of compensatory spending or other aggregate remedies for acute depression or chronic stagnation. They are accepting, if not clamoring, for the market stimulus that would be derived from deficit spending at the present time. Even while they make formal demands for a balanced budget, they are more or less receptive to government hospitalization or support appliances for the coal industry or any other that might be officially declared "sick." They are not willing to accept out-and-out responsibility for harmonizing wage-cost-price relationships on which they can go ahead at reasonably—93 to 97 per cent—full employment.

IV

My last and closing section is about the basic responsibility of management, reasoned faith in private enterprise.

I would be naïve indeed if I did not recognize the very serious difficulties management confronts in discharging such a responsibility in the face of the conditions imposed upon them today by some features of union bargaining and federal legislation. But it is the proud boast of American management that it has both the vigor and the ingenuity to surmount difficulties, to detour every impediment that cannot be removed, to win by flank attack wherever frontal attack is futile. The major responsibility of management in these critical days is to preserve free enterprise by demonstrating that business is self-sustaining, not dependent on government guarantees or periodic rescue operations.

Great as are the difficulties loaded upon business management from the outside, there is a self-imposed difficulty which is of decisive significance at the present time. Moreover, it is one whose removal lies within the power and the responsibility of management. This self-imposed difficulty lies in the failure of executives to accept, as part of their fundamental thinking, the practical attainability of the objectives of sustained high employment laid down in the Employment Act. They are still waiting for the big depression around the corner. If they insist on writing the wastes of depression into their cost sheets, they will derive a pricing formula which does not permit full market absorption of high-level employment. On such a basis, as soon as the artificial inflation of monetary spending power is removed, volume will fall below the reasonable maximum.

It was an element of strength in free enterprise under the proprietary form of ownership that job makers ventured boldly with their own capital. The transition to large corporate enterprise under professional managers has brought the danger that these "trustees," as they designate themselves, will turn to defensive rather than offensive strategy at crucial stages in the business battle. In times of stress such as we are now entering, these "trustees" are tempted to seek safety by refusing to venture out into the dangerous areas of expansion and competitive combat which are demanded by a sustained, full-production economy. Labor is not the only segment of our economic life where the yearning for security becomes a menace to economic achievement.

If time permitted, I should have liked to discuss the economics of the proposition that only by "seizing the

nettle danger" can management rob it of its sting. Recent experience shows, as never before, the possibility of prosperity with a high break-even point. But it requires the iron nerve of the racing driver on a saucer track. We have to keep going.

To sum up, the economist, speaking for the economy, demands of management:

First, daring in making commitments, equal to that of our business ancestors;

Second, technical competence and financial prudence in the operational area, including imaginative development and aggressive selling;

Third, tolerance, frankness, and objectivity in dealing with labor as a partner.

It is a basic responsibility of management in a system of free high-production enterprise under free government to keep the settlement of economic issues within the process of voluntary group bargaining and to make these settlements on the basis of science, not brute force.

If this is to be done, management must not drive labor to resort in desperation to government to secure for it a more favorable settlement than it can get by well-informed and economically sophisticated bargaining. Nor will management be meeting its social responsibilities if it resorts to government ownership, to "public utility" treatment—and you see them flirting with that—or to subsidy—and the other metal industries are thinking that they now have come into the green pastures where the silver-producing industry and the farmers have been so long. No, management will not be meeting its social responsibilities if it calls upon government ownership to protect its asset position or to simplify its managerial task.

From the Point of View of Management

WILLIAM B. GIVEN, JR.

As you of course know, my talk is the fourth and last of the series on "The Social Responsibility of Management." My assignment is to speak on this subject from the standpoint of management. To me, management's social responsibility is, from every point of view, the same as the individual's social responsibility. As president of Brake Shoe, and as Bill Given, I look through the same eyes and see the same objectives. The word "management" is a collective term for individuals in positions with various degrees of authority who work together. It is important to keep in mind that, today, management people usually own only a small interest in their companies. In other words, no matter what their titles may be, they are still only employees.

So, to me, the first question is: What are the social responsibilities of individuals—you, and me, and other people? Our first responsibility is, of course, to our families; after that, to our neighbors, to our community, and, just as definitely, to all others who can be affected by our decisions and actions. Each of us has the inherent obligation to put forth his or her best effort to make life better

for other people. Our individual social obligations are great.

The first job of management is to operate a business successfully. This is essential if it is to have an opportunity to contribute to society. Management's greatest responsibility is to company people. A successful company is one which gives its people—those who work in it and its stockholders—more of the things they want from life and more security in the possession of these things. I wish particularly to talk about these responsibilities to company people and how we should try to fulfill them.

Many people still think of a business enterprise in terms of buildings, equipment, bank balances, stocks and bonds. These tangibles are merely its tools of trade. Actually, a company is a group of people working together. As a group, to be effective, they need a statement of objectives which clearly sets forth the end purposes, the long-range objectives of the company. It helps to keep management on the track. Obviously, if these objectives are sound, progress toward them will benefit all company people. And this benefit will spread to company families, communities, and the whole country.

Realizing this as an essential need, a dozen or more years ago we set out to crystallize the objectives for which our company was striving and for which, in my opinion, industry generally is striving. We finally reduced them to five simple statements. We wished to make our company:

1. A better place to work in;
2. A better neighbor in the community;
3. A better company to invest in;

4. A better company to sell to;
5. A better company to buy from.

These statements hang on the walls of our plants and offices as a constant reminder to all of us. We try to live up to them. Progress is being made.

I

There are many aspects to be considered in making a company a better place in which to work. We in management are deeply impressed with the importance of people. We realize that, in developing a successful company, people play a more important part than plants, engineering, and research. They are even more important than sufficient money. With right people the rest will come. Without them, the tangibles will have little value. Right people understand teamwork and the importance of all-out effort and enthusiasm in building a sound business.

To accumulate right people in the ranks of any organization is impossible unless those in supervision are fine human beings. That sounds hard to accomplish. It is—and it does take time. Any company that tries to have only such men in supervision takes the first step by eliminating those who do not qualify and filling the vacancies with others who do. Such eliminations are a must if this purpose is real.

The characteristics that make good bosses are the same qualities that make men good husbands, good fathers, and good friends. They are the simple virtues—honesty, loyalty, moral courage, kindness, generosity. Men with these qualities are cause minded. They know that the contribution they can make toward better products, toward lower

costs and prices, toward improvements in working conditions, and all the other aspects of greater success can and will build a better future for all concerned.

Old-school business managers felt that everyone who worked for them was in their debt. Some even felt that the pay check was, at least in part, charity. We, who are older, experienced this. Now we know that the opposite is true— that every company has a long-term debt to those who contribute to its success. Managers who are not realistic about this do not belong in today's management.

This is putting the emphasis where is belongs, on human relations, on the debt a company owes to the men and women who are endeavoring to make it successful. Just what is this obligation? When we analyze it, it is simple. It is exactly the same as the responsibility which flows from friendship. In time of trouble we turn to a friend, and if we have been right about his friendship we are not disappointed.

As a friend of company people and their families, we in business are trying to build so that they will turn to us in supervision whenever they are in trouble. We expect supervisors in every department to behave so that their people will feel toward them as they feel toward their close friends. No one qualifies for a supervisory position whose day-to-day behavior does not earn the confidence of his people. This is not just sentiment; it is sound business. It builds a proper basis of relationship between the company and its people. Friendship is the beginning of our social responsibility.

At all times we must keep before us the fundamental fact that the right kind of people will not be attracted to or remain in our ranks unless we "rate" them. In order

to rate them, we must give them a chance to progress, a feeling of self-respect, and a sense of security.

Every man's work attitude and effectiveness is related to his home and family, his environment, his personal philosophy, his economic situation, and his happiness. Realizing this, management generally has come to think of its people not in terms of the working day but in terms of their whole lives. The labor turnover in industry today is due not so much to persons seeking higher wages as to their seeking satisfaction of their basic needs and desires. It is management's responsibility to help fulfill these deeper needs and desires to the best of its ability.

Obviously, the things that people want and need most form the basis of a company's opportunity to contribute a maximum to the community life as well as to the family life of its people.

Let me list some of the things which managements believe they must provide if they are to contribute toward improvement of the standards of life in our country. These are things all of us search for in our lives:

Security of employment;
Security in retirement;
Security against misfortune;
Healthy working conditions;
Opportunity for advancement;
Recognition and self-respect.

In spite of endless orations and many millions of printed words to the contrary, these are today the objectives of American management. There has never been a period in the country's history when the intentions of management were finer. Unprejudiced people know this

to be true. The slanderers can be divided into two groups—those who do not know the facts, and those who prefer batting to building. These generally are people who seek the limelight, people who have no interest in how many are damaged in their attempts to make themselves conspicuous.

Our company, along with innumerable others, has been trying for years to fulfill these human needs more adequately. And let me add that even if management were composed only of money grubbers, it would follow these same policies because they pay dividends—both tangible and intangible.

To explain these points I want to mention some of the specific things we are doing.

Security of Employment: The original Brake Shoe Company came into being in 1902 through the consolidation of five small family-owned iron foundry companies. Their total value was $1,000,000. Eighty-five per cent of the products were sold to the railroads. Gradually our management realized that if the objective was the security of company people, the future should not be tied to the prosperity or depression of a single industry. Some progress was made in the early years. In the late 1920's we started, and since then have continued, an intensive program of diversification of products in order to broaden our markets. Our investment in research and engineering over the years since then has been large. Today about half our sales dollar comes from general industry in all the other fields. This provides not only increased production but also increased stability. We will continue trying to build greater employment security. That is both our

social responsibility and our greatest social opportunity. And progress will contribute to earnings.

Security in Retirement: In 1940 we adopted a contributory retirement plan for all employees. In addition to the costs of establishing the plan, the company assumed the large cost of funding the past service of our employees. The plan includes all of us on the same basis of length of service and rate of pay. It is interesting to note that throughout the eleven-year period more than 85 per cent of our people have been members of this contributory plan. As far as practical, pension checks are sent to the plants for delivery in person by the plant superintendent or nurse. The pensioners know we are available in case of their illness or other troubles. There is proof of our interest in their welfare, that we still think of them as members of our family. Every year each pensioner receives a Christmas present from his former plant or office.

Security Against Misfortune: Not only death but family illnesses, accidents, and other serious troubles come to most of us at some time in our lives. In Brake Shoe we help our people meet these emergencies through group life insurance—established in 1932—and accident and health insurance for them and their dependents. Furthermore, our plant superintendents have for use at their sole discretion a plant welfare fund in ready cash as well as a company lawyer, doctor, and nurse. Social responsibility is not met by good intentions alone. It is met by action—action in time. A family emergency is not helped because there is a law or regulation to meet it. The doctor, the nurse, the lawyer, must arrive on time. Our plants and our offices are scattered all over this country. When there is trouble in a company family the local boss does not

fill out some form and mail it to the county seat, to the state capitol, to Washington, or even to the New York office. He has full authority. The supervisor picks up the phone, gives the number of the doctor, nurse, or lawyer, and starts the rescue. He understands his responsibility, has the authority to act, and gets a great kick out of his power to be useful.

Healthy Working Conditions: For many years we have realized that any amount of expense which makes a plant healthier and safer is a sound investment. We need not only better working conditions but the best possible. There must be maximum freedom from accident hazards, a minimum of lifting and carrying, cleanliness, good light and air, proper temperatures, a clean and pleasant place to eat, good shower and locker rooms. These are the conditions that you and I would want if we were working in a plant.

Industry has been spending millions of dollars, in fact billions of dollars, on better working conditions. It would help the understanding of business if more people realized that fact. In the last twenty years our company has scrapped twenty-two old plants and replaced them with modern buildings. We have been moving from big cities to smaller communities. Our people benefit. They can have healthier, happier lives. Their pay dollar buys more. The family is on a sounder footing. Such advantages increase the degree of company success in getting better people.

Also, very important in making Brake Shoe a better place for people to work in is the Medical and Industrial Hygiene Department. In our company each new employee receives a preplacement physical examination. It is a fun-

damental responsibility to see that he is assigned to work for which he is physically fit. Each employee receives a physical examination every two years and a chest X ray every year. This work is essential to the elimination of occupational diseases and also detects many unhealthy conditions in their early stages. For instance, our chest X-ray program in three years uncovered 120 cases of tuberculosis which otherwise would probably have gone undetected until they reached the advanced stage. The incidence of lead poisoning and silicosis has been materially reduced and in some plants eliminated.

Our Industrial Hygiene and Safety people are constantly checking the plants for unhealthy conditions caused by dust, fumes, chemicals, or other dangers. They also co-operate with local and state health departments in an effort to reduce air pollution in our communities.

Today we have more people in our Medical and Industrial Hygiene Department than we had in Engineering twenty years ago—actually twice as many. Healthy working conditions are not only a responsibility of companies to their people but a responsibility to society.

Opportunity for Advancement: For most people this is high on their list of desires. Part of management's job is to help men who show initiative and zeal to qualify for advancement. There is daily proof that, with few exceptions, men are willing and anxious to deliver a full day's production, that competent people generally prefer an incentive basis of pay. They want their pay envelope to reflect their skill and accomplishment. They want to see a chance for promotion ahead, a chance to have more of the things they want for their families. This is a historic American characteristic, one that has made our develop-

ment possible. Doles and guarantees of security without effort can undermine sound traits of character. They can even undermine a nation.

There is still high pride in accomplishment. Management must find additional ways to encourage individual ambition and initiative. Building the individual is both an obligation and an opportunity.

Recognition and Self-respect: Every one of us knows his personal need for self-respect and recognition. When plants were smaller, the bosses knew each man by name, knew his family, often chatted with him about his work, new orders, or the company generally. This gave the man a feeling of personal importance. Today's management is striving to return to this relationship of years ago in spite of the difficulties—obvious and great—in large plants. We ask and expect foremen and supervisors to make an all-out effort to know their people as individuals.

Company magazines, reports, and management letters are being used more and more to assist in keeping employees informed about their company. Generally, these are mailed to their homes. Certainly the worker is entitled to know the facts about the business, what the prospects are for the future, where the machine or product he is working on fits into the company operation or is used in industry. Yes, and in most homes other members of the family are interested. Children exposed to such information approach their own work life with better understanding.

It is human nature for man to be restive when he is in the dark. For years I have preached that we must think and act in terms of individuals, not groups, that we are trying to build a human business on the basis of

friendship and mutual confidence. Frank disclosure of all facts of interest is essential to accomplish this objective.

II

Referring back to our company aims, the second objective was "a better neighbor in the community." This is vitally important. Just as an individual cannot long hide his weaknesses from his neighbors, neither can a poor industrial citizen cover up its shortcomings indefinitely.

An accurate measure of a company's progress in meeting its social responsibilities is the opinion of the community. In small towns the preacher, the grocer, the taxi driver, can help us estimate how the company's management meets these responsibilities. These people know how workers feel toward their company. Normally, you find that if the family is proud of a man's job and the company he works for, the community also is proud of that company.

As a member of a community, a business must be public spirited, lend a shoulder to worth-while community activities, help local institutions and causes. Company people should be encouraged and expected to contribute their time and energy. Men who carry their share of community responsibilities grow, through those experiences, into better, stronger, more understanding members of their management group—they become capable of accomplishing more in increasing company strength and their chance of advancement.

We should, however, keep in mind that the managements of companies that are owned by large numbers of stockholders have no right to give money to community

causes unless a direct benefit to company people may be expected. We are employed to manage a business, not to make stockholders' charity contributions for them.

Giving to Red Cross during the war was a debt we owed to company people at home and in the services. Helping a local hospital is important to company people. Medical research into an occupational disease can have direct benefit. There are many places where companies can give in the interests of their people and also contribute to the welfare of the community.

III

The third company aim, which is as important as any, is "a better company to invest in." The stocks of innumerable companies are held in small lots by people in all walks of life and all income levels.

In our company no one individual or family has an important percentage of ownership. Neither do any of us in management have a large number of shares. Fifty-five per cent of the stock is held by 8,819 individuals with an average of 75 shares. Our dividend rate is of importance to thousands of families. Last year they received an average of $165.00 in dividends. The balance of the stock—45 per cent—is held by insurance companies, banks, trusts, and other institutions. Through these holdings the interests of several million people are involved.

This is usually referred to as private ownership. To me it is public ownership. People must realize that managers in jobs like mine do not work for banking interests, for a majority or for a minority group, for rich people, or for self and family. We are placed in our positions by dele-

gated public authority expressed through proxies. Our authority comes from a segment of the public which, through ownership of company stock, votes and chooses its directors. If the existing directors are not an asset to society, it is this public's job to put others in their place, just as it is the public's job to replace a senator who does not back the legislation which contributes to society. The directors' most important job in representing the public of stockholders is to see that the head man is qualified for his responsibilities. If he is not and directors do not remove him, they themselves should be replaced.

Management is charged with the responsibility of providing a fair return on the money invested by the public. Also—and this is of vital importance—public confidence in the company is necessary if it is to be successful in raising additional funds when they are needed. If such funds are not available management is unable to meet its obligations to company people and society—in the extreme, the company may not be able to stay in business.

It is now widely recognized that too few people really understand how business functions in this country. Industry has done a very poor public-relations job. A better-informed public will defeat any attempt to socialize industry. Management has concentrated on the objectives I have cited and endless others which contribute to social betterment. Today we need a wider knowledge and appreciation among all people of industry's acceptance of its social obligations.

The fundamental justification for the existence and continuance of a business must be based on its ability to contribute to the welfare and betterment of our country

and the world, today and in the years to come. Management accepts this criterion.

We will lose the high value to society of management's acceptance of its responsibilities and opportunities if we let this country of ours, as a result of ignorance and misleading propaganda, legislate us out of the tools and the right to act. Do not forget for one minute that, with more government regulation of industry, people in management will not have authority to do the things for society covered in this talk. With government operation of business it would be impossible.

Acceptance of a position in management entails acceptance of the social responsibilities which go with it. In the long run the future of any business, of all business, will depend upon the kind of people in management more than on any other single element.

If we are to have the industrial relations we are trying to achieve in our country, each and every man in management must be a decent, straightforward individual. His high pride must be in the contribution he makes to the lives of the people under him. He must know that it is always possible to increase the satisfaction people get out of their work. Such men willingly assume their social responsibilities.

In terms of generations, we are not in jobs of influence for very long. We must accept the fact that as managers we are only links between the past and the future. But the fact that each of us is a link makes it important that we keep the long-range opportunities in mind when we reach our desks each morning, that we weigh the problems we face in terms of the future rather than merely

try to find immediate solutions, that we go all out to make our link in the chain as strong as possible.

Our success will be a matter of courage and sustained effort, of letting ourselves be more human than businessmen are supposed to be.

Date Due

DUE	RETURNED	DUE	RETURNED